

Message Text

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ACTION EA-14

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PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01

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R 200505Z JUL 74

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 8953

INFO AMEMBASSY DACCA

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMCONSUL CALCUTTA

AMCONSUL HONG KONG

USLO PEKING

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 KATHMANDU 2953

E.O. 11652: GDS

TAGS: PFOR, PINS, NP, IN, US

SUBJECT: NEPAL: MID-YEAR 1974

1. SUMMARY: NEPAL TODAY IS UNEASY AND ANXIOUS ABOUT THE FUTURE. LAW AND ORDER SITUATION IS UNCERTAIN; CONFRONTATION WITH THE KHAMPAS IS AT HAND; INFLATION CONTINUES APACE; AND RELATIONS WITH INDIA ARE CLOUDED BY MAY 18 NUCLEAR EXPLOSION AND POLITICAL DEVELOPMENTS IN SIKKIM. IN THIS CONTEXT NEPALESE PERCEIVE U.S. ROLE TO BE A STABILIZING ONE, AND OUR PRESENCE IS HIGHLY VALUED. NONETHELESS, THERE IS A GROWING NATIONALISM AND SUSPICION OF FOREIGN ACTIVITIES WHICH, IN TIME, COULD BEGIN TO ERODE THE SOLID BASIS FOR CURRENT US/NEPALESE BILATERAL RELATIONS. END SUMMARY.

2. AS NEPAL ENTERS A NEW FINANCIAL YEAR, IT IS APPROPRIATE TO TAKE STOCK OF THE ECONOMIC AND POLITICAL SITUATION. ON THE SURFACE NEPAL REMAINS ALMOST AS CALM AND LETHARGIC AS EVER, BUT THIS SEEMING

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TRANQUILITY HIDES ANXIETY AND UNCERTAINTY ABOUT THE

POLITICAL AND ECONOMIC FUTURE AND ABOUT NEPAL'S RELATIONS WITH ITS DOMINANT SOUTHERN NEIGHBOR.

3. IN DOMESTIC POLITICAL TERMS, THE MOST SIGNIFICANT RECENT DEVELOPMENTS HAVE BEEN THE SERIES OF GRENADE EXPLOSIONS AND SEIZURES OF WEAPONS FROM NEPAL CONGRESS PARTY (NCP) SYMPATHIZERS. WHILE INDIVIDUALLY THE INCIDENTS, WHICH HAVE TAKEN PLACE BOTH IN THE TERAJ AND IN KATHMANDU, HAVE BEEN RELATIVELY MINOR RESULTING IN NO LOSS OF LIFE AND MINIMAL DAMAGE, THEIR CUMULATIVE EFFECT HAS BEEN UNSETTLING, PARTICULARLY AMONG THE POLITICAL AND BUREAUCRATIC ELITES IN THE KATHMANDU VALLEY. GIVEN THE DIFFICULTY OF CONTROLLING ISOLATED ACTS OF TERRORISM AND THE EASE OF MOVEMENT BETWEEN INDIA AND NEPAL, IT IS VIRTUALLY CERTAIN THAT VIOLENT INCIDENTS WILL CONTINUE, WITHOUT THE SUPPORT OF THE GOVERNMENT OF INDIA. LOCAL POLITICIANS SYMPATHETIC TO THE NCP'S CAUSE TELL US THERE IS A POSSIBILITY THAT SUCH INCIDENTS WILL INCREASE IN INTENSITY AS THE FEBRUARY 1975 CORONATION APPROACHES. THE GON IS AWARE OF THIS POSSIBILITY AND IN ANTICIPATION IS TRYING TO STRENGTHEN ITS INTERNAL SECURITY CAPABILITY.

4. FURTHER EVIDENCE OF THE GOVERNMENT'S NERVOUSNESS ABOUT THE POLITICAL SITUATION IS SEEN FROM THE STEPS IT IS TAKING TO DISARM AND RESETTLE KHAMPA REFUGEES IN THE MUSTANG AREA. FROM RELIABLE SOURCES WE UNDERSTAND THAT THE PALACE IS CONVINCED THAT THERE IS A REAL DANGER THE KHAMPAS WILL PUT THEIR ARMS AT THE DISPOSAL OF THE NCP AND THAT ARMS WOULD THEN BE USED FOR SUBVERSION AGAINST THE REGIME. WHILE THIS FEAR IS UNDOUBTEDLY EXAGGERATED, IT IS SUFFICIENTLY STRONGLY HELD TO HAVE RESULTED IN A DECISION TO DEPLOY UNITS OF THE ROYAL NEPALESE ARMY (RNA) AGAINST THE KHAMPAS. FOR RNA THIS EXERCISE IS FRAUGHT WITH UNCERTAINTIES AND POSSIBILITIES OF MISCALCULATION. RNA'S CAPACITY FOR SERIOUS FIGHTING IS LIMITED, PARTICULARLY AGAINST SKILLED AND WELL-TRAINED OPPOSITION. HOPEFULLY, A NEGOTIATED SETTLEMENT WILL BE WORKED OUT UNDER WHICH THE KHAMPAS WILL SURRENDER AT LEAST A PORTION OF THEIR ARMS, BUT THE POSSIBILITY REMAINS OF A PROLONGED CONFRONTATION, WITH CASUALTIES AND CONTINUING LOGISTICAL PROBLEMS WHICH, IN TURN, COULD HAVE AN ADVERSE PSYCHOLOGICAL IMPACT, LEAD TO SERIOUS DISAFFECTION AMONG THE MILITARY, AND WEAKEN THE POLITICAL POSITION OF THE KING. AT VERY LEAST KHAMPA SITUATION HAS MADE CERTAIN WITHDRAWAL OF NEPALESE UNEF CONTINGENT ON

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SCHEDULE IN SEPTEMBER.

5. NEPAL'S PROBLEMS ARE NOT, HOWEVER, MERELY POLITICAL. THE ECONOMY CONTINUES TO SUFFER FROM A HIGH RATE OF INFLATION AND FROM PROLONGED SCARCITIES OF CONSUMER ITEMS SUCH AS KEROSENE, CIGARETTES AND SOAP. THE FOCUS OF THE RECENTLY-CONCLUDED BUDGET DEBATE WAS ON THESE PROBLEMS AND ON THE GOVERNMENT'S FAILURE TO TAKE EFFECTIVE COUNTER-MEASURES. ALTHOUGH THIS YEAR'S

BUDGET IS DESIGNED TO BE DEFLATIONARY BY RESTRICTING THE GROWTH OF MONEY SUPPLY, IT REMAINS TO BE SEEN WHETHER THE GON FINANCE MINISTRY CAN, IN FACT, BRING ABOUT A REDUCTION IN PRICES OF ESSENTIAL COMMODITIES, PARTICULARLY FOODSTUFFS.

6. SO-CALLED "INSTITUTIONALIZATION" OF GRAIN TRADE IS DESIGNED TO GIVE GOVERNMENT FLEXIBILITY IN FOOD AREA, BUT OPPOSITION FROM BUSINESS COMMUNITY IS CONSIDERABLE. GIVEN THE FACT THAT NEPALESE ECONOMY IS HEAVILY DEPENDENT UPON FACTORS OUTSIDE THE GON'S CONTROL; NOTABLY, THE PRICE STRUCTURE AND CONSUMER GOODS SCARCITIES IN INDIA, IT IS DOUBTFUL THAT RAPID PROGRESS WILL BE MADE IN SLOWING THE RATE OF INFLATION. WHEN ADDED TO THE GOVERNMENT'S INABILITY TO STOP TERRORISM, AND PROBLEMS WITH THE KHAMPAS, CONTINUING INFLATION IS ALSO LIKELY TO ADD TO RIJAL GOVERNMENT'S UNPOPULARITY.

7. EXTENT OF GOVERNMENT'S UNPOPULARITY CAN BE JUDGED FROM REMARKABLE LETTER WHICH WAS WRITTEN TO INDEPENDENT MOTHERLAND BY KING'S BROTHER-IN-LAW KUMAR KHADGA ON JUNE 26. LETTER REFERS TO "DISMAL" PERFORMANCE OF THE GOVERNMENT AND CHARGES THAT POLITICAL LEADERS ARE MORE INTERESTED IN MAKING MONEY THAN IN FIGHTING CORRUPTION. HE CHARACTERIZES THE GOVERNMENT AS INEFFICIENT, IN-COMPETENT AND INEPT. WE UNDERSTAND THAT SUBSEQUENTLY KHADGA PRIVATELY MADE KNOWN HIS VIEW THAT DANGEROUS SITUATION EXISTS IN THE COUNTRY BECAUSE OF CONSOLIDATION OF POWER IN THE PALACE, BICKERING AMONG GOVERNMENT MINISTERS AND BETWEEN THEM AND PALACE ADVISORS AND ABSENCE OF STRONG LEADERSHIP IN PANCHAYAT SYSTEM. KHADGA'S VIEWS ARE TYPICAL OF THOSE APPEARING IN PRESS CRITICAL OF GON POLICY AND POLITICIANS AND REFLECTS GENERAL DISILLUSTIONMENT OF INTELLECTUALS AND FORMER GOVERNMENT OFFICIALS WITH LACK OF POLITICAL PARTICIPATION.

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COME-00 TRSE-00 CU-05 IO-14 DRC-01 /183 W

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R 200505Z JUL 74
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TO SECSTATE WASHDC 8954
INFO AMEMBASSY DACCA
AMEMBASSY MOSCOW
AMEMBASSY NEW DELHI
AMCONSUL CALCUTTA
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USLO PEKING
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C O N F I D E N T I A L SECTION 2 OF 2 KATHMANDU 2953

8. ONE FINAL CLOUD ON HORIZON FOR GON IS STUDENT UNREST. LAST SIX MONTHS HAVE BEEN REMARKABLY UNEVENTFUL ON ALMOST ALL CAMPUSES OF TRIBHUVAN UNIVERSITY. BUT UNHAPPINESS OF GRADUATE STUDENTS WITH PROPOSED NATIONAL SERVICE SCHEME THREATENS THIS PEACE, AND WE WOULD NOT BE SURPRISED TO SEE RISE IN STUDENT DEMONSTRATIONS AND STRIKES IN COMING MONTHS.

9. DESPITE ALL THESE DIFFICULTIES, IT IS WELL TO KEEP IN MIND THAT THERE IS NO VIABLE ALTERNATIVE TO THE PRESENT REGIME. ALTHOUGH ISOLATION OF KING AND PALACE ADVISORS FROM PEOPLE AND BUREAUCRACY REMAINS SIGNIFICANT PROBLEM, WE WOULD NOT WISH TO SUGGEST THAT HMG IS IN ANY FUNDAMENTAL DIFFICULTY OR CANNOT WEATHER THE STORMS WHICH ARE NOW BEGINNING TO BREAK OVER THE SHIP OF STATE. HIS MAJESTY HAS CONSIDERABLE ROOM FOR MANEUVER AND MAY WELL REMOVE PRESENT PRIME MINISTER OR LIBERALIZE POLITICAL SYSTEM IN RESPONSE TO THESE VARIOUS PRESSURES.

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10. THE FRUSTRATIONS, WHICH NEPALESE CURRENTLY FEEL ABOUT THE COUNTRY'S SLUGGISH ECONOMIC PERFORMANCE AND POLITICAL STAGNATION, ARE AGGRAVATED BY NEPALESE CONCERN ABOUT POLICIES OF ITS SOUTHERN NEIGHBOR. RECENT EVENTS; NOTABLY, THE INDIAN NUCLEAR EXPLOSION ON MAY 18 AND THE INDIAN INTERVENTION IN SIKKIM TO CREATE A MORE POLITICALLY RESPONSIVE SYSTEM, HAVE BEEN READ IN KATHMANDU WITH CONCERN. NEPALESE AT VARIOUS LEVELS HAVE TOLD US OF THEIR UNHAPPINESS AT WHAT THEY INTERPRET TO BE MORE ASSERTIVE INDIAN ROLE IN THE AREA. THESE EVENTS HAVE REVIVED FEARS OF INDIAN HEGEMONISTIC DESIGNS RAISED AT TIME OF 1971 BANGLADESH CRISIS, WHICH HAD SEEMED TO BE SUBSIDING IN RECENT MONTHS. PUBLIC AND PRESS ATTENTION IS NOW ALSO BEING GIVEN TO ALLEGATIONS OF INDIAN SUPPORT FOR KHAMPAS, WHICH GON SEES AS SINISTER GIVEN ASSUMPTIONS ABOUT KHAMPA TIES WITH NCP. THESE FUNDAMENTAL SUSPICIONS CANNOT EASILY BE DISPELLED, ALTHOUGH INDIAN EMBASSY HERE APPEARS TO BE WORKING ASSIDUOUSLY TO IRON OUT SPECIFIC BILATERAL DIFFERENCES, ESPECIALLY IN THE ECONOMIC AREA. AMBASSADOR RASGOTRA IS ALSO RELIABLY REPORTED TO HAVE ASSURED HIS MAJESTY THAT GOI WOULD TAKE APPROPRIATE

STEPS TO PREVENT NCP EXILES FROM DISRUPTING THE CORONATION.
WHETHER INDIA HAS CAPACITY TO DO SO IS PROBLEMATICAL.

11. IN OVERALL EXTERNAL RELATIONS, NEPAL CONTINUES TO PURSUE CAREFULLY CONTRIVED POLICY OF ASYMMETRICAL EQUIDISTANCE BETWEEN PEKING AND NEW DELHI. NEPAL IS MAINTAINING ITS EFFORTS TO FIND COUNTERBALANCING FORCES TO INDIAN POWER. RELATIONS WITH THIRD PARTIES ARE BEING EXTENDED; AND IN THE LAST TWO MONTHS RESIDENT EMBASSIES HAVE BEEN OPENED BY POLAND, NORTH KOREA AND SOUTH KOREA. THE NEPALESE HAVE ALSO MADE CLEAR TO US THE IMPORTANCE WHICH THEY ATTACH TO OUR PRESENCE AS A STABILIZING FACTOR AND AS COUNTER-WEIGHT TO INDIAN AND SOVIET INFLUENCE.

12. IN CONTRAST TO SUSPICIONS AND TENSIONS IN INDO/NEPALESE RELATIONS, SINO/NEPALESE RELATIONSHIP IS REMARKABLY EQUABLE. NEPALESE ARE FAIRLY COMPLACENT ABOUT PRC, WHICH IN CONTRAST TO INDIA IS SEEN AS A MODERATE, CONCERNED AND TRUSTWORTHY FRIEND. EVIDENCE OF CHINESE SUPPORT ABOUNDS, PARTICULARLY THE BAKHTAPUR TROLLEY LINE AND KATHMANDU RING ROAD, BOTH OF WHICH ARE HIGHLY VISIBLE SYMBOLS OF PRC'S BENEVOLENT INTENTIONS.

13. ALTHOUGH NEPAL HAS ENHANCED ITS ROLE IN THE UN AND THE THIRD WORLD VIZ ITS CONTRIBUTION TO UNEF AND ITS MEMBERSHIP OF
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NON-ALIGNED COORDINATING BUREAU, THE LAST FEW MONTHS HAVE NOT BEEN MARKED BY ANY NOTABLE SUCCESSES FROM GON'S POINT OF VIEW. NEGOTIATIONS BETWEEN NON-ALIGNED AND ARAB COUNTRIES OVER PETROLEUM PRICES HAVE BEEN STYMIED, AND ARABS HAVE SHOWN LITTLE WILLINGNESS TO MEET NEPAL'S SPECIAL NEEDS. SIMILARLY, ALTHOUGH AN ACTIVE LEADER OF THE LANDLOCKED GROUP AT THE LAW OF THE SEA CONFERENCE, NEPAL SEEMS UNLIKELY TO SUCCEED IN GETTING THE CATEGORIC RIGHTS OF TRANSIT WHICH SHE HAS BEEN SEEKING.

14. IN THIS OVERALL CONTEXT OF UNCERTAINTY, WHAT ARE THE PROSPECTS FOR US/NEPALESE RELATIONS? AS INDICATED ABOVE, THE NEPALESE ATTACH GREAT IMPORTANCE TO A VISIBLE US PRESENCE AND TO THE RESOURCE INPUTS WHICH OUR AID REPRESENTS, BOTH IN FOREIGN EXCHANGE AND INDIAN CURRENCY. IF INTERNAL PROBLEMS INTENSIFY, AS SEEMS LIKELY, GON APPRECIATION OF OUR ROLE IN CONTRIBUTING TO STABILITY WILL BE ENHANCED. ON THE OTHER HAND, THERE IS A RISING CLIMATE OF CHAUVANISM IN THE COUNTRY, AND NEPALESE OFFICIALS ARE BECOMING INCREASINGLY RESTIVE AT INTRUSIVENESS OF FOREIGN ADVISORS. THIS FACT HAS SURFACED IN RECENT WEEKS IN TERMS OF GON'S EFFORTS TO RESTRICT THE PRIVILEGES TO WHICH FOREIGN ADVISORS ARE ENTITLED. THIS SOMEWHAT MORE NATIONALISTIC ORIENTATION OF MANY OFFICIALS COULD RESULT IN MISUNDERSTANDINGS AND PERHAPS THE EXTENSION OF PRESSURES AGAINST RESIDENT FOREIGNERS TO INCLUDE THE QUITE SUBSTANTIAL AMERICAN MISSIONARY COMMUNITY OPERATING IN NEPAL. WE DO NOT, HOWEVER, ANTICIPATE MAJOR PROBLEMS IN THE IMMEDIATE FUTURE

AND ARE CONFIDENT THAT FOR THE TIME BEING NEPAL'S NEED FOR US
SUPPORT AND ASSISTANCE STRONGLY REFLECTED IN THE KING'S PERSONAL
VIEWS, WILL OUTWEIGH THE TENDENCY OF SOME NEPALESE TO DENIGRATE
THE ROLE OF FOREIGNERS, INCLUDING AMERICANS.
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